Personal Taxpayer Series
IR161

Inland Revenue

Tax relief for employees' business travel

A short guide for employees about the tax treatment of their travel expenses from 6 April 1998

Why does my business travel affect my tax?

Generally you are taxed on expenses of travel which your employer pays or provides for you. This is because the law says they are part of your income. However, you can claim tax relief for the cost of business journeys in the course of your job or to get you from home to a place where you have to be for your work (but there is no tax relief for the cost of travel from your home to your permanent workplace).

Does this mean that there is always tax to pay on what my employer pays for my business travel?

No. Very often the amount your employer pays is balanced by the amount you can claim. But the amounts will not necessarily be the same. Your employer may pay for things which are not business travel - in which case you will pay tax on the difference, unless you can claim tax relief under different rules. Or you may pay out more for business travel than your employer pays for - in which case your claim can reduce the tax you pay on income from the same employment.

What sort of expenses payments are we talking about?

The common expenses which employers pay - to you or to someone else for you - are

- mileage allowances if you use your own car*
- payments to you in advance, or afterwards, for train and air tickets
- payments direct to airlines and hotels for your travel and accommodation

- payments to a credit card company for travel expenses you have paid by using a credit card in your employer's name

- an allowance (often called a 'round sum') paid to you for travel expenses.

**If you receive mileage allowances, we recommend that you read leaflet IR125 'Using your own car for work' which you can get from any Tax Office.*

How do I know what my employer has paid?

Unless your expenses payments are covered by a dispensation (see page 5) or you receive mileage payments under a '*Fixed Profit Car Scheme'* (see below), your employer has to tell the Tax Office the total amount of your expenses payments during the tax year, and will tell you too. Details of expense payments are usually given on form P11D and you should receive your details by 6 July after the end of the tax year.

Mileage payments under a Fixed Profit Car Scheme

If your employer pays you a mileage allowance for using your own car for business, the payments may be dealt with under something called a *'Fixed Profit Car Scheme'*. This is an administrative arrangement which employers can use to report any profit on the mileage allowances they pay to employees who use their own cars for business travel. The employer compares the rates of mileage allowances paid for the whole of the tax year with the Inland Revenue's authorised mileage rates and reports the difference. If there is tax to pay it is collected through an adjustment to employees' tax codes. Your employer will be able to tell you whether your mileage payments are being dealt with in this way.

Whether or not there is a Fixed Profit Car Scheme in operation, you can use the Inland Revenue's authorised mileage rates to work out the cost of your business journeys and to compare it with the amount of mileage payments you have received from your employer. Alternatively, you can calculate the actual costs of your business motoring, but that means keeping more records. Leaflet IR125 *'Using your own car for work'* explains how to calculate the cost of business motoring on either basis.

What records should I keep?

You need to keep records so you can

- check your PAYE code
- complete a tax return fully and accurately, if you get one
- claim tax relief for travel expenses
- answer any enquiries from your Tax Office.

You need to keep records of

- what your employer has paid for your travel, and
- the expenses for which you want to claim tax relief.

Records of your employer's expenses payments

The records can include

- details of mileage allowances paid to you under a Fixed Profit Car Scheme
- slips your employer gives you when paying you your expenses
- a copy of the details on form P11D, which you will receive by 6 July after the end of the tax year.

Records to support your claim for tax relief

These could include

- mileage details - for example a log showing dates, trips made and business miles travelled - and details of motoring costs
- records to prove what you have paid out - such as receipts, credit card statements, ticket stubs.

Sometimes you may not get a bill or receipt for expenses, especially where the amounts are small. If this happens, you should make a brief note as soon as you can of the amount you spent, when you spent it and what it was for.

If you do get a receipt or other evidence, you may have to give it to your employer when you put in your claim for reimbursement. You should keep a copy or a note of the broad details of these expenses.

Dispensations

What happens if my employer has a 'dispensation'?

If the expenses your employer pays are fully covered by your tax relief, the Tax Office may issue your employer with a *'dispensation'*. A dispensation saves the employer having to report the details of your expenses payments to the Tax Office.

What difference does a dispensation make to me?

Your employer will be able to tell you whether or not your travel expenses payments are included in a dispensation. If they are

- you get tax relief automatically on those payments
- your PAYE tax code will not show either those expense payments or your matching tax relief
- you should not include those payments in your tax return, if you get one
- you must restrict any claim for relief for travel expenses to the costs which you have paid out of your own pocket and for which you have not been reimbursed.

If your employer pays you mileage allowances which are covered by a dispensation, we recommend that you read leaflet IR125 *'Using your own car for work'.*

How am I taxed on the expenses my employer pays?

People who have to pay tax on their expenses usually pay it through their PAYE tax code. If you do not get a tax return, your Tax Office will check after the end of the tax year to see if you have paid the right amount of tax. If you get a tax return, you enter on it the amount of the expenses your employer has paid for your travel.

How do I get tax relief for the costs of my business travel?

You may need to claim it. If you get a tax return, you make the claim on the return. If you do not get a tax return your Tax Office may send you form P87 *'Expenses claim'*. Or you can ask for form P87 or claim by letter to your Tax Office. Usually your Tax Office will give the relief by adjusting your PAYE tax code.

You will not need to claim your tax relief

- if all the expenses you receive are covered by a dispensation (see page 5), and you have not met any other expenses out of your own pocket
- for mileage allowances paid to you under a Fixed Profit Car Scheme (see page 2), unless you wish to claim at the Inland Revenue authorised mileage rates or for your actual business motoring costs. (See booklet IR 125 *'Using your own car for work').*

How much tax relief can I get for my business travel?

If you have to travel on business you can get tax relief for the full costs of your business journey.

Examples

The examples below show how the rules work in some typical situations. The figures used are purely illustrative.

Example 1
Bill normally works at his employer's regional office in Swindon. Occasionally he has to attend a management meeting at the head office in London. Bill's employer pays a travel allowance sufficient to cover the cost of a standard class rail ticket for the journey. The employer has a dispensation covering this payment.

Bill buys a first class ticket. He can claim the difference between the allowance he received for the standard class ticket (covered by his employer's dispensation) and the cost of the first class ticket.

Example 2
Chris usually works at his employer's main office in London, travelling each day in his car from his home in Oxford.

One day he has to work at a branch office in Birmingham instead. He travels directly to and from his home. The cost of the return journey is £43.

Chris is entitled to tax relief for the full cost of his business journey, £43.

Example 3
Frances works at different sites and has no permanent workplace. She travels in her own 1,600cc car to and from the sites where she is working. Over the whole of the tax year she travels 8,000 miles on business to and from the different sites. She is entitled to tax relief for the cost of this travel.

Frances's employer pays her 50p a mile for her business travel. This is more than the Inland Revenue authorised mileage rates for a 1,501 - 2,000cc car. For the particular tax year the authorised rates are 45p for each of the first 4,000 business miles and 25p for each mile over 4,000. Frances gets a tax return.

Frances's employer does not operate a Fixed Profit Car Scheme. So her P11D shows the full mileage allowances of £4,000 she has been paid (50p x 8,000 miles) for the tax year.

As explained in IR125 *'Using your own car for work'*, Frances can choose to calculate the tax relief for her business travel by

- using the Inland Revenue's authorised mileage rates. The cost of 8,000 business miles using these rates is £2,800 (the first 4,000 miles at 45p = £1,800, plus the next 4,000 miles at 25p = £1,000); or

- using her actual costs of business motoring. Frances has kept full records of her actual travel costs and these show that her business travel in her own car has cost £2,935. The relief due for the 8,000 business miles by using her actual costs is therefore £2,935.

What travel qualifies for relief ?

Broadly, relief is available for any journeys you have to make in order to carry out the duties of your employment **except** travel which is '*ordinary commuting or private travel'*.

What is 'ordinary commuting or private travel'?

In general terms, *'ordinary commuting'* is travel between your home , or any other place you attend for personal reasons such as the home of a friend or relative, and your '*permanent workplace'. 'Private travel'* is any travel where the purpose is private rather than business. No tax relief is available for the cost of these types of travel.

What is a 'permanent workplace'?

Broadly, a *'permanent workplace'* is a workplace you attend or expect to attend regularly for

- more than 24 months , or
- less than 24 months if that is the whole period of your employment.

Not every employee will have a permanent workplace and some may have more than one. Occasional attendance at a second workplace is unlikely to mean that you have two permanent workplaces. If you are in doubt your Tax Office will be able to give you advice.

What about subsistence costs ?

Subsistence costs include meals and accommodation. Your subsistence costs while travelling or staying away on business are expenses of travel. Relief is available for the full cost of travel **including** subsistence.

What about other associated costs?

The fact that you may incur costs as a result of your business travel does not automatically mean that tax relief is available. For example, you should not include in your claim for business travel such things as child-minding costs, laundry, or

telephone calls home. Certain expenses of this type may qualify for tax relief under different rules if they are reimbursed by your employer. If you are not sure whether tax relief is available for a particular item you should check with your Tax Office.

What about foreign travel?

There are special rules for foreign travel, which in certain circumstances may give greater relief than the rules outlined above. Your Tax Office can give you advice.

Where to go for more information

This leaflet does not cover all the issues that may arise in deciding how much relief you can get.

We produce a range of publications, designed to explain different aspects of the tax system in plain English, and to assist in the completion of tax returns. Most of them are free.

You can get help and further information about our publications from any Tax Enquiry Centre or Tax Office. Addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 4.30pm, Monday to Friday, and some are also open outside these hours.

When our offices are closed, you can get general advice by calling our Helpline in the evening or at weekends on **0645 000444**. Calls are charged at local rates.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

Many of our leaflets are also available on the Internet at
http:/www.open.gov.uk./inrev/irleaf.htm

Many employers have a copy of our Booklet 490 '*Employee Travel - A Tax and NICs Guide for Employers*' and may be willing to help you with your questions.

These notes are for guidance only and reflect the tax position at 6 April 1998.
They do not affect any right of appeal.

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